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**Research Report**

## FDI and CSR to promote social entrepreneurship and sustainable FDI: Lessons from India

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Perspectives on topical foreign direct investment issues

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#### **FDI and CSR to promote social entrepreneurship and sustainable FDI: Lessons from India**

by

Shradha Mani\*

Social entrepreneurship has evolved in India, ranging from traditional micro-finance to technology breakthroughs delivering low-cost diagnostics and climate resilient crops. India needs a more robust approach to channel foreign long-term capital into these innovations, vital to attaining sustainable development for all.

Company law in India provides that domestic and foreign companies operating in India and meeting prescribed financial thresholds must spend at least 2% of their net profits on specified corporate social responsibility (CSR) activities.<sup>1</sup> In 2019-20, 59 foreign companies listed on India's stock exchanges spent US\$64 million on CSR, compared to the US\$1.5 billion spent by 1,217 domestic companies.<sup>2</sup>

Indian law allows contributions to technology business incubators to upgrade infrastructure and support start-ups. Despite India's need for technology start-ups delivering high social impact (e.g., telemedicine, virtual education), however, CSR spending on such technology incubators has been negligible. From 2015-2018, healthcare and education projects received on average US\$302 and US\$520 million, respectively, while technology incubators promoting social entrepreneurship received only US\$2.5 million.<sup>3</sup>

Neither have foreign investors shown much interest in the social venture funds contemplated by India's Securities and Exchange Board. These funds, which invest in social businesses and follow impact investment objectives, receive tax and structural incentives similar to venture capital funds. While social venture funds raised just US\$140 million and invested just US\$90 million in 2012-2019, venture capital funds raised US\$1.2 billion and invested US\$900 million in Indian businesses in the same period.<sup>4</sup> The risk-return payoff for social impact start-ups renders them unattractive for traditional venture capital funding (especially when structured as not-for-profits) due to restrictions on dividend distribution.

Also, India permits 100% FDI in renewable energy, affordable housing and medical device manufacturing. However, between 2000 and 2019, only US\$9.1 billion and US\$1.9 billion FDI has flowed into non-conventional energy and medical appliances respectively, while US\$80 billion has flowed into financial and software technology, telecommunications, infrastructure, automobiles, and pharmaceuticals sectors.<sup>5</sup>

Funds could be channeled into social enterprises by promoting UN Sustainable Development Goals (SDGs)—in particular, regarding environmental, social and governance issues—into the investing parameters of India’s FDI Policy. Further, incorporating the UN Global Compact principles or the OECD guidelines for MNEs in the implementation of the FDI Policy could successfully intertwine environmental and socio-economic sustainability with industrial growth. The first step is to create awareness about active sustainable investment opportunities through the [Invest India website](#) and during roadshows promoting FDI into India. Global initiatives include the [SDG Investment Forum](#) and [international investment conferences](#). Proposed policy measures for India’s FDI Policy could include:

- **Promoting SDG-related sectors.** Currently, investment opportunities on the Invest India website are promoted by sector or location. Sustainable FDI can be encouraged by highlighting SDG-aligned investment opportunities (i) within sectors (e.g., by promoting energy storage and micro-grid technology within the realm of energy and infrastructure); (ii) as a separate sector, cutting across themes (e.g., the promotion of livelihoods and rural development across the manufacturing and agriculture sectors); and/or (iii) across regions, including by focusing on the entrepreneurial level or attention to SDG-related sectors within states). Initiatives to-date include the Baseline Report of the SDGs India Index, which tracks the progress made by [Indian States and Union Territories towards the 2030 SDG targets](#) and the [UNDP-Invest India SDG Investor Map](#).
- **Promoting social enterprises.** A publicly available database of start-ups, especially those incorporating the SDGs in their business models, would help bring them to the forefront. A [list](#) of recognized start-ups, vetted by the Department for Promotion of Industry and Internal Trade, is already available on the Start-up India website. Improvements to this database could involve adding details about the start-ups’ area of operation, alignment with the SDGs, impact metrics (human rights, labor, environment, anti-corruption practices), and some basic financial highlights.
- **Combining sustainable FDI with CSR funds.** Promoting technology business incubators to simultaneously attract FDI and CSR funds could support high risk projects employing deep science and technology with long gestation periods in emerging markets. Without such support, such SDG-aligned clean technology or affordable healthcare projects that rely on borrowing and subsidies, could face financial or bankruptcy risk, jeopardizing capital already invested and the well-being of underserved communities.

India’s policy efforts to streamline business processes improved its position on the Ease-of-Doing-Business and Global-Competitiveness indices. However, neglecting issues like climate change and poverty could harm the attractiveness of any country, regardless of its strong macroeconomic indicators. Encouraging sustainable and responsible FDI would therefore help ensure not only inclusive and sustainable growth, but also the country’s attractiveness for foreign investors.

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<sup>1</sup> Including eradicating hunger, poverty and malnutrition, sanitation, promoting education, promoting gender equality, ensuring environmental stability, protection of national heritage, and rural development projects. Schedule VII of the 2013 Companies Act.

<sup>2</sup> See [CRISIL Foundation, \*CSR Yearbook: Doing Good in Bad Times\* \(Mumbai: CRISIL, 2020\)](#), p. 15.

<sup>3</sup> [Indian Ministry of Corporate Affairs, \*Report of the High-Level Committee on Corporate Social Responsibility 2018\* \(New Delhi: August 2019\)](#), pp. 40-41.

<sup>4</sup> [Securities and Exchange Board of India, \*Data relating to activities of Alternative Investment Funds\* \(2019\)](#).

<sup>5</sup> [Indian Ministry of Commerce and Industry, \*Fact Sheet on Foreign Direct Investment April 2000—March 2020 \(Sector-wise FDI flow, March 2020\)\*](#).

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